

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8

4. (a) Define the following terms indicated in bold in the text:

(i) tariff (*paragraph ❶*) [2 marks]

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that a tariff is a form of protectionism.	1
2	<i>Precise definition</i> An explanation that it is a tax on imports.	2

(ii) foreign direct investment (*paragraph ❸*). [2 marks]

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is an investment from overseas.	1
2	<i>Precise definition</i> An explanation that it is capital expenditure (long-term investment) by a company in a foreign country.	2

- (b) “The price of a Honda motorbike has gone down from US\$2200 to US\$1600” (*paragraph 2*). Using an appropriate diagram, explain the impact on the quantity demanded of Honda motorbikes of a decrease in price of Honda motorbikes.

[4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1-2

For drawing a correctly labelled demand diagram showing a movement down the existing demand curve for Honda motorbikes or for providing an explanation that the lower price for Honda motorbikes will lead to an increase in the quantity demanded (expansion in demand) for this product in Vietnam. Demand does not increase and so the demand curve does not shift.

2 *Correct application of appropriate theory*

3-4

For drawing a correctly labelled demand diagram showing a movement down the existing demand curve for Honda motorbikes and for providing an explanation that the lower price for Honda motorbikes will lead to an increase in the quantity demanded (expansion in demand) for this product in Vietnam. Demand does not increase and so the demand curve does not shift.

Some candidates may show a shift in the supply curve to the right as a result of the lower tariffs and lower costs of production. This causes a movement along the demand curve. This is acceptable and can be fully rewarded. They may also draw a tariff diagram, with a falling tariff, falling price and so an increase in the demand for motorbikes.

Candidates who incorrectly label diagrams cannot be rewarded with full marks. The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

- (c) Using a tariff diagram, explain how tariff cuts **could put “downward pressure on inflation”** (*paragraph 2*). [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled tariff diagram showing a downward shift in the S (World) plus tariff curve or for explaining that tariff cuts will reduce the cost of imported inputs or semi-finished goods in the production process (business costs), or finished goods for consumers and lead to downward pressure on inflation. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled tariff diagram showing a downward shift in the S (World) plus tariff curve and for explaining that tariff cuts will reduce the cost of imported inputs or semi-finished goods in the production process (business costs), or finished goods for consumers and lead to downward pressure on inflation. | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks.
 The use of P and Q on the axes is sufficient for a demand and supply diagram.
 A title is not necessary.

- (d) Using information from the text/data and your knowledge of economics, evaluate the impact of the lower tariffs in Vietnam on domestic producers, consumers and the government.

[8 marks]

Responses may include:

- a tariff diagram.

Impacts on domestic producers:

- increased competition between local and foreign goods (*paragraph 2*)
- increased sales of imported goods
- decreased sales of domestically produced goods
- lower costs of production for businesses using imported inputs (*paragraph 2*)
- improvements in efficiency and allocation of resources caused by the reduction of the deadweight loss arising from the lower tariffs
- increased FDI
- increased exports.

Impacts on consumers:

- cheaper imported goods provides an increase in consumer surplus
- a wider choice of imported goods
- reduced prices for locally produced goods
- expanded consumer choice with more goods available (*paragraph 2*).

Impacts on government:

- decrease in tax revenue from tariffs, estimated to be US\$63 million per year for the first five years (*paragraph 3*)
- increased short-term unemployment
- reduced costs putting downward pressure on inflation (*paragraph 2*)
- increased economic growth
- increased revenue from the growing economy to offset the loss of tariff revenue (*paragraph 3*).

Candidates must consider the impact upon all three stakeholders, domestic producers, consumers and the government, to move beyond Level 2.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

Examiners must be aware that candidates may take a different approach which if appropriate, should be rewarded.

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.